

TO: State Directors
Rural Development

ATTENTION: MFH Program Directors, MFH Coordinators, and Loan Specialists

FROM: Arthur A. Garcia *(Signed by Arthur A. Garcia)*
Administrator
Rural Housing Service

SUBJECT: Multi-Family Housing Loan Servicing and Portfolio
Management Goals for Fiscal Year 2003

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) establishes ongoing loan servicing and portfolio management goals for Rural Development's Multi-Family Housing (MFH) loan servicing and portfolio management for the period October 1, 2002 through September 30, 2003. Direction on accomplishing the goals is outlined in Multi-Family Housing Loan Servicing and Portfolio Management Plan for Fiscal Year 2003. (Attachment A).

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued for Fiscal Year 2003 regarding this topic.

IMPLEMENTATION RESPONSIBILITIES:

State Directors and MFH Program Directors/Coordinators will review the attached Loan Servicing and Portfolio Management Goals and provide implementation for FY 2003. Training, implementation and measurement of results will be considered while reviewing the present organization of the MFH Program, strategic plans, training schedules, performance elements and standards. All personnel involved in the administration of the MFH program will be utilized.

Portfolio servicing will continue as the top priority in management of the MFH program. State Directors are to make the most effective and efficient use of personnel and automation resources in accomplishing the goals as set forth in the Loan Servicing and Portfolio Management Plan. Proper loan servicing includes; borrower counseling, financial analyses, prudent property maintenance, and protection of residents' interests.

EXPIRATION DATE: September 30, 2003

FILING INSTRUCTIONS:
Preceding
RD Instruction 1965-B

States are to implement the Loan Servicing and Portfolio Management Goals using applicable regulations, agency instructions, and administrative notices. All servicing authorities should be utilized to the maximum extent possible to correct physical and financial deficiencies and cure loan delinquencies. Properties that are experiencing problems uncommon to the portfolio norm should be serviced using the following: Workout Plan Agreement, Change in Membership, Transfer, Reamortization, Consolidation, and/or Debt settlement. The Multi-Family Housing Portfolio Management Division at the National Office should be contacted for guidance in cases not explicit in the regulations.

Any questions regarding this AN should be directed to Melinda Price, Sr. Loan Specialist, at 202-690-0669.

Attachment

***MULTI-FAMILY HOUSING
LOAN SERVICING AND PORTFOLIO MANAGEMENT GOALS
FISCAL YEAR 2003***

I. EXECUTIVE SUMMARY

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B. INVENTORY PROPERTIES

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F. ANNUAL BUDGET AND AUDIT REVIEWS

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MULTI-FAMILY HOUSING LOAN SERVICING AND PORTFOLIO MANAGEMENT GOALS FISCAL YEAR 2003

I. EXECUTIVE SUMMARY

Proper asset management of the MFH portfolio begins with a thorough evaluation of the entire portfolio to obtain a clear understanding of existing and potential problems. Close monitoring, timely follow-up and a consistent administration of the regulations will be beneficial in the resolution of problems and contribute to the stability of your program.

While during prior years the Agency has produced successes in the servicing and management of the MFH portfolio, FY 2003 will continue to present challenges. These challenges require staff at all levels to be better prepared. Staff must be provided with training, resources and support to meet these challenges. The mission, goals, and plan of action for effective loan servicing and portfolio management of the MFH program are described as follows.

II. MISSION STATEMENT

The mission of the MFH program is to provide decent, safe, sanitary and affordable housing to very low and low-income rural residents. As the mission is realized, the program must also protect the government's security and taxpayers' investment by ensuring effective asset management.

III. GOALS

A. RECEIVERSHIP PROPERTIES

GOAL - Reduce receivership periods to no more than 12 months.

The oversight process of property held in receivership by the agency requires close monitoring and supervision by the National Office and affected State and Servicing Offices. This will include the review of property financial records such as monthly reports, year-end reports, and annual audits. Additionally, the staff is responsible for review and approval of the payment of certain expenses.

Several receivership properties have special needs and will need to be serviced within the parameters of a workout plan. Others will require sales and/or other liquidation plans. To transition out of the receivership, it will be necessary to focus efforts on obtaining new substitute general partners, transfers of ownership, or liquidate accounts.

Measurement: MFIS Report TRK2000 - Servicing Effort Tracking

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B. INVENTORY PROPERTIES

Goal - Reduce inventory property holding periods to no more than 12 months.

Affected State Offices must review their inventory property portfolio and take necessary actions to effectively dispose of these properties. To accomplish this, all efforts should be given to marketing the properties, including reducing the price, sealed bids, or sale as a non-program property. All inventory properties should be managed and made ready for sale in the most expeditious manner using the authorities in RD Instructions 1955-B and C.

The National Office should be contacted for assistance in the sale of a property experiencing marketing difficulties. Reports to the National Office on the disposition of inventory properties will be requested on a case by case basis. States will be contacted to determine what efforts are being made to remove these properties from inventory and what assistance can be provided from the National Office.

Measurement: The National Office will review the status of inventory properties by compiling AMAS reports and reviewing the MFIS Report TRK 2000 - Servicing Efforts for quarterly updates. States should use the comment section of MFIS to provide updated status.

C. DEBT SETTLEMENT LOANS

Goal – Use debt settlement authorities to reduce certain long-term delinquencies.

A number of long-term delinquencies are the result of inactive accounts with loan balances remaining after the asset is liquidated (i.e., foreclosure, sale, or transfer for less than the debt, compromise offer, bankruptcy, etc.). These accounts need to be settled due to their negative impact on the overall MFH delinquency rate. State Offices are to immediately request assistance of the Office of General Counsel, the Assistant United States Attorney and/or the National Office when accounts in this category are determined to exist.

Measurement: The National Office will run a monthly FOCUS report on inactive accounts to monitor progress and to determine whether National Office intervention is needed to expedite the process.

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D. DELINQUENT LOANS

Goal - Maintain a delinquency rate of 2% or less.

All States with delinquency rates that exceed 2% are required to work with borrowers and take appropriate servicing actions to reduce their delinquency rates to 2% or less.

Borrowers who are consistently delinquent require aggressive servicing and counseling regarding late payments. If long-term delinquency is the result of pending litigation for liquidation, appropriate officials should be notified and encouraged to expedite such litigation. When States are experiencing difficulties with litigation officials or when the loan is part of a long-term workout agreement, the National Office should be contacted for assistance.

Any State with average delinquency rates above the 2% National average will be closely monitored and contacted by the National Office to determine what efforts are being made to reduce the delinquency, and to identify whether assistance or training is needed. Delinquency status reports may be required from those States identified as having problems. Similarly, any States exhibiting a trend in increasing delinquencies may be required to submit an explanation or a plan of action. Any instances of Servicing Offices holding payments and not processing them in a timely manner must be discontinued immediately. All payments are to be processed when received.

Measurement: AMAS Report RC 545

E. OPERATING BUDGETS AND UTILITY ALLOWANCES

Goal – Take appropriate action on all Operating Budgets and Utility Allowances prior to the beginning of a project's fiscal year.

RD Instruction 1930-C, paragraph 1930.122 states that project budgets and/or utility allowances must be prepared, reviewed, and approved in such a manner and timing that the approved budget and utility allowance, including changes becoming effective at the beginning of a fiscal year of project operation. This includes the update of MFIS to indicate approval actions. All approval budgets are to be reviewed and approved on MFIS prior to the start of the borrower's fiscal year. If not, MFIS should indicate that a finding has been generated for either a “not received” or an “unacceptable” budget.

Measurement: MFIS Report TRK 3000 - Tracking Step Summary

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F. ANNUAL BUDGET AND AUDIT REVIEWS

Goal - Complete all year-end financial reviews within the required timeframe.

The “Actuals” listed on Form RD 1930-7, the Balance Sheet on Form RD 1930-8, and the project audit are to be reviewed and any findings entered on MFIS within 60 days of their receipt. The borrower is to be notified of the results of the review and MFIS is to be updated accordingly.

Measurement: MFIS Report TRK 3000 - Tracking Step Summary

G. ANNUAL PHYSICAL INSPECTIONS (WALKABOUTS)

Goal - Complete all Annual Physical Inspections (Walkabouts) at all properties.

The purpose of the annual physical inspection (walkabout) is to quickly determine whether there are potentially serious problems that may require immediate attention. In addition, unless previously addressed during the supervisory visit, a determination should be made if the common areas are accessible as required by Fair Housing Law. All necessary walkabout inspections must be completed. All findings and follow-ups are to be entered into MFIS.

Measurement: MFIS Report TRK 3000 - Tracking Step Summary

H. SUPERVISORY VISITS AND COMPLIANCE REVIEWS

Goal - Complete all scheduled Supervisory Visits and Compliance Reviews as required.

The Supervisory Visit includes the MFIS supervisory activities “triennial physical inspection,” the “supervisory visit,” and the “compliance review.” The supervisory visit is the Agency's primary tool to complete in depth analysis of the borrower operations with regard to Management Plan/Agreement, Fair Housing, tenant eligibility, file review, budget compliance, and building security and maintenance. The borrower is to be notified of findings and deficiencies and given a timetable to correct all problems. Any summary level findings must be entered into MFIS.

Measurement: MFIS Report TRK 3000 - Tracking Step Summary

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I. ACCURATE REPORTING OF FINDINGS AND VIOLATIONS

Goal - Enter all instances of non-compliance on MFIS.

Based on a review of FY 2002 findings and violations, a concern has been raised that instances of non-compliance with program requirements have not been properly entered on MFIS. States reporting very few findings and violations per project are to review inspection analysis and reporting practices to assure that servicing routines are adequate to assure proper discovery and reporting of borrower non-compliance. In addition, all states are to review and assure that proper steps are completed to resolve findings and that those requiring additional resources to resolve are identified as such.

Measurement: MFIS Report FND 1000 - Project Finding

J. FAVORABLE OCCUPANCY TRENDS

GOAL - Review MFH Occupancy Statistics to assure your portfolio exhibits positive trends.

State Directors and program managers with MFH responsibilities are to review MFH occupancy statistics on a quarterly basis to assure that their portfolio exhibits positive trends in occupancy statistics. While market conditions may impact the accomplishment of positive trends, efforts must be made to use available resources as effectively as possible. These efforts include but are not limited to:

- A higher percentage of RA use
- Lower vacancy rates
- A lower number of tenants overburdened by housing costs.

Measurement: MFIS Report PRJS 4200 - Occupancy Trend

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IV. MONITORING THE MFH PORTFOLIO WITH MFIS

Goal - Ensure MFIS data is accurate, consistent, timely and complete and used to manage the MFH program.

When used correctly, MFIS enables the Agency to effectively manage the MFH portfolio and assure the proper use of Federal housing resources. Staff at National, State and Servicing Office levels have immediate access to portfolio information in order to make better program management decisions, and more effectively deploy limited resources. With the implementation of MFIS3 the ability to review portfolio activity now extends to borrowers and management agents as well as servicing office jurisdictions.

Effective management decisions rely on the accuracy, consistency, timeliness and completeness of information such as a property's physical and financial condition, and the tracking and scheduling of supervisory activities and servicing efforts.

- State and Servicing Offices are required to input the current status of all servicing actions into MFIS. The State Office must monitor the MFIS activities of Servicing Offices to assure that data is accurate, consistent, timely and complete and that regulatory authorities are effectively used to manage the portfolio and determine that Agency resources are effectively used to obtain compliance.
- The National Office monitors portfolio management of properties through MFIS reports as well as AMAS information. A quarterly National Office review will be used to measure the accomplishment of the goals contained in this Administrative Notice.

V. PLAN OF ACTION

The implementation of the Loan Servicing and Portfolio Management Goals and accuracy of all data are the responsibilities of the State Director. The State Director may assign a person(s) the responsibility of monitoring servicing activities, follow-up, and problem resolution as outlined in this plan.